

CREDIT BASED SIXTH SEMESTER B.B.M. DEGREE EXAMINATION
APRIL 2012
BUSINESS MANAGEMENT
FINANCIAL MANAGEMENT - IV
SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT

Time: 3 MRS

Ma:x. Marks: 105

SECTION - A

20 X 3 = 60

1. Explain the uses and approaches of security analysis.
OR Explain the approaches in the construction of the optimum portfolio.
2. What are the uses of CAPM model? Explain the differences between CAPM model and Multi Factor model with examples.

OR

The returns of three securities are given below.

	Period	Security - A	Security-B	Security -C
1	4%	8%	12%	
2	8%	7%	6%	
3	16%	3%	15	
4	-4%	9%	18%	
5	12%	14%	22%	
6	14%	18%	14%	
7	15%	19%	16%	
8	18%	15%	12%	
9	7%	12%	7%	
10	10%	14%	16%	

- a) Find out the **expected return** of the securities.
- b) Calculate **standard deviation** of the securities.
- c) What **would be the expected** return of the portfolio, **if investment** made is equal in all the three securities?

From the **following details** calculate the expected **portfolio return** and the portfolio variance using **Sharpen's Single Index Model**.

Security	Weight	α	β	Residual variance
A	0.30	3.00	1.90	260
B	0.15	2.00	1.10	320
C	0.05	1.00	0.90	340
D	0.20	1.25	1.20	420
E	0.10	0.50	0.80	290
F		1.10	1.30	210

The market **return is 20%** and variance of market return is 280.

OR

Estimate the **stock return** by using the CAPM model and arbitrage model. The particulars are **given below**.

- a) The expected **return of the** market is 15% and the equity's beta is 1.2. The risk free rate of **interest is 5%**.

b)

Factor	Market price of risk	Sensitivity index
Inflation	6%	1.1
Industrial production	2%	0.8
Risk premium	3%	1.0
Interest rate	4%	- 0.9

What explanations can you offer to explain the difference in two

SECTION - B

* ■ . ● = = .

Answer any five of the following:

4. Briefly explain the types of risk.
5. "Investment in a portfolio is better than investment in a stock".
6. What factors necessitate portfolio revision? Describe the **majt** revision.
7. Explain the implications of random walk for technical and
8. If the following assets are correctly priced on the security of the market portfolio? What is risk free rate of return?

5. i r s ul

$$R_1 = 10\% \quad (\beta_1 = 0.9)$$

$$R_2 = 14\% \quad \beta_2 = 1.2$$

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Years	Return - L (%)
2010	12
2011	18

What is the portfolio risk of a portfolio made up of 60% of i-d! JIBR**1 in:

SECTION-C

Answer all the questions:

10. a) How many inputs are needed for a portfolio analysis **rig***; Sharpe model?
- b) Distinguish between portfolio analysis and security **anah ■ ■ : . . e)**
- What is the difference between portfolio evaluation **and**
- d) If market return is 20% and risk premium of a security **:** beta of the security?
- e) The return of a portfolio consisting ratio 3:2 is 16%. If the return of sec security Y?



BBM 604.1

Reg. No.

CREDIT BASED SIXTH SEMESTER B.B.M. DEGREE EXAMINATION APRIL 2013
BUSINESS MANAGEMENT
FINANCIAL MANAGEMENT – III
Corporate Financial Accounting

Time: 3 Hrs

Max. Marks: 120

SECTION – A

Answer any Three questions.

3 x 20 = 60

1. What is Venture Capital? Explain its features and the various stages in Venture Financing.
2. What is Lease Financing? Discuss the types of leasing and their merits and demerits.
3. The Balance sheet of H. Ltd as on 1st January, 1996 and profit and loss statement for the year ending 31st December, 1996 are given below.

Balance Sheet as on 1 – 1 – 1996

<u>Liabilities</u>		<u>Assets</u>	
Share capital	4,00,000	Plant & Machinery	3,00,000
13% Debentures	1,00,000	Furniture & Fixtures	40,000
Current liabilities	50,000	Inventory	60,000
		Debtors	50,000
		Cash	1,00,000
	<u>5,50,000</u>		<u>5,50,000</u>

Profit and Loss Statement for the year ending 31st December, 1996.

Sales		10,00,000
LESS: Cost of goods sold: opening inventory	60,000	
ADD: Purchases	<u>7,10,000</u>	
	7,70,000	
LESS: Closing inventory	70,000	<u>7,00,000</u>
Gross profit		3,00,000
LESS: Operating expenses	1,51,000	
Interest on debentures	13,000	
Depreciation on machinery	45,000	
Depreciation on furniture	<u>4,000</u>	<u>2,13,000</u>
Net profit		87,000

Debtors and current liabilities balances remained constant throughout the year. Interest on debentures was paid on 31 – 12 – 1996.

The general price index was as follows.

On Jan 1, 1996	300
Average for the year	320
On dec 31, 1996	360

You are required to prepare the financial statement for the year 1996 after adjusting for price level changes under current purchasing power method.

4. Welsh Ltd. is faced with a decision to purchase or acquire on lease a mini car. The cost of the mini car is `1,26,965 and it has a life of 5 years. The mini car can be obtained on lease by paying in advance equal lease rentals annually amounting to `30,447. The leasing company desires a return of 10% on the gross value of the asset. Welsh Ltd. can also obtain 100% finance from its regular banking channel. The annual rate of interest will be 15% and the loan will be paid in 5 equal annual installments of `32,935 each instalment becoming due at the beginning of the year. The effective tax rate of the company is 40%. For the purpose of taxation it is assumed that the asset will be written off over a period of 5 years on straight line basis. Advise Welsh Limited about the method of acquiring the car taking into consideration the following.

Year	PV factor @ 9%	PV factor @ 10%	PV factor @ 15%
0	1.00	1.00	1.00
1	0.917	0.909	0.870
2	0.842	0.826	0.756
3	0.772	0.751	0.658
4	0.708	0.683	0.572
5	0.650	0.621	0.497

SECTION – B

Answer any Five questions.

5 x 10 = 50

5. Explain in detail the provisions of any five important Indian Accounting Standards.
6. Explain the various models of valuation of human resources based on cost.
7. Describe the challenges faced by International Financial Managers in the International environment.
8. Describe the Venture Capital Investment Process.
9. What is the relevance of “Accounting for inflation”? Explain the relative merits of each method which has been developed to deal with price level changes.
10. Explain the various accounting conventions.

SECTION – C

11. Answer all the questions:

10 x 1 = 10

- a) Explain two accounting concepts.
- b) State any two limitations of historical accounting.
- c) What are the components of International Financial Management environment?
- d) Who is a venture capitalist?
- e) What is international Financial Management?
- f) How Current Processing Power (CPP) accounting is different from Current Cost Accounting (CCA)?
- g) Define inflation accounting.
- h) What are the two limitations of historical accounting?
- i) Why is human resource accounting important?
- j) Write any two problems of human resource accounting.

BBM 604.2

Reg. No.

CREDIT BASED SIXTH SEMESTER B.B.M. DEGREE EXAMINATION APRIL 2013
BUSINESS MANAGEMENT
FINANCIAL MANAGEMENT – IV
Security Analysis & Portfolio Management

Time: 3 Hrs

Max. Marks: 120

SECTION – A

Answer any Three questions.

3 x 20 = 60

1. Describe the different tests of weak form of Efficient Market Hypothesis.
2. What is Markowitz optimal Portfolio? Critically examine the Markowitz Model.
3. An investor wants to build a portfolio with the following four stocks. With the given details, find out his portfolio return and portfolio variance using Sharpe's Index Model. The investment is spread equally over the stocks.

Company	α	β	Residual Variance
A	0.17	0.93	45.15
B	2.48	1.37	132.25
C	1.47	1.73	196.28
D	2.52	1.17	51.98

Market return (R_m) is 11 and Market return variance is 26.

4. Given below is the information of market returns and data from two companies X and Y (%).

	Year 2009	Year 2010	Year 2011
Market	12.0	11.0	9.0
Company X	13.0	11.5	9.8
Company Y	11.0	10.5	9.5

Determine the beta coefficients of the shares of company X & Y.

SECTION – B

Answer any Five questions.

5 x 10 = 50

5. What is Security Analysis? Explain the need and objectives of Security Analysis.
6. What are the limitations of Efficient Market Hypothesis?
7. What are the advantages of Arbitrage Pricing Theory over Capital Asset Pricing Model? Explain in detail.
8. Write a note on Factor Models.
9. Stocks G and H have yielded the following returns for the past two years.

Years	Return	%
	G	H
2011	12	14
2012	18	12

- a) What is the expected return on portfolio made up of 60 percent of G and 40 percent of H?
 - b) Find out the standard deviation of each stock.
 - c) What is the covariance and coefficient of correlation between stock G and H?
 - d) What is the portfolio risk of a portfolio made up of 60 percent of G and 40 percent of H?
10. The following assets are assumed to be correctly priced on the security market line, what is the return of the market portfolio? What is the risk free rate of return?
- $R_1 = 9.40\%$ $\beta_1 = .80$
 $R_2 = 13.40\%$ $\beta_2 = 1.30$

SECTION – C

11. Answer all the questions:

10 x 1 = 10

- a) Distinguish between systematic risk and unsystematic risk.
- b) What do you mean by portfolio execution?
- c) Define Beta.
- d) List any 2 assumptions of CAPM.
- e) What is the need for Portfolio Revision?
- f) What is meant by purchasing power risk?
- g) What is Efficient Portfolio?
- h) Dummy Limited, an investment company, has invested in equity shares of a blue chip company. It's risk free rate of return is 10%. Expected total return (R_m) is 16%, Market Sensitivity Index (β) is 1.50 (of individual security). Compute expected rate of return using CAPM.
- i) Shekhar has a portfolio of five securities. The expected rate and amount of investment in each security is as follows:

Security	A	B	C	D	E
Expected Return	.14	.08	.15	.09	.12
Amount Invested	`20,000	`10,000	`30,000	`25,000	`15,000

Compute the expected return on Shekhar's portfolio.
- j) A Ltd's share gives a return of 20% and B Ltd's share gives 32% return. Mrs. Geetha invested 25% in A Ltd's shares and 75% in B Ltd's shares. What would be the expected return of the portfolio?

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APRIL 2014

BUSINESS MANAGEMENT

FINANCIAL MANAGEMENT – IV

Security Analysis & Portfolio Management

Time: 3 Hrs

Max. Marks: 120

SECTION – A

Answer any THREE questions

3x20=60

1. Define Risk. Explain the various types of Risk.
2. “Portfolio Risk may be reduced without sacrificing returns if securities are combined correctly” Examine in the light of Markowitz diversification.
3. Following information is available in respect of five securities.

Security	Expected Return	σ	σ^2
I	14	1.5	10
II	9	1.0	20
III	8	0.8	10
IV	12	1.5	20
V	15	1.0	30

Construct an optimal portfolio as per Sharpe optimization model given that R_f is 5% & σ_p is 10.

4. The following are the annual return for shares of New Bite Ltd and for the representative equity price index.

Year	New Bite Ltd (R_s) (%)	Index (R_m) (%)
1	1	2
2	14	16
3	19	13
4	-8	-7
5	-12	-13
6	3	4
7	8	8
8	17	10
9	14	15
10	14	16

Find out the β for the equity shares of New Bite Ltd. If the risk-free rate is 6% and the market rate of return is 12%, what would be the expected return on equity shares of New Bite Ltd?

SECTION – B

Answer any FIVE questions

5x10=50

5. “Indian stock market is efficient” Discuss.

6. How does constant rupee plan differ from constant ratio plan?
7. Write a short notes on
 - a) Factor models
 - b) Arbitrage Pricing Theory
8. The following three portfolios provide the particulars given below:

Portfolio	Average Annual Return	Standard Deviation	Correlation co-efficient
A	18	27	0.8
B	14	18	0.6
C	15	8	0.9
Market	13	12	---

Risk free rate of interest is 9%. Rank these portfolios using Sharpe's and Treynor's methods.

9. The following information is available from Mr. Z in respect of his portfolio.

Security	Weight (%)	Expected Return (%)	Standard Deviation (%)
A	50	20	24
B	50	12	16

- i) Find out the correlation between the returns if the standard deviation of the portfolio is 20% or 18%.
 - ii) Find out the standard deviation of the portfolio comprising A & B in the ratio of 25% and 75% respectively.
10. Explain the need and objectives of security analysis.

SECTION – C

11. Answer the following questions

10x1=10

- a) Give the meaning of one factor model.
- b) Bring out the meaning of EMH.
- c) What is a risk-free asset?
- d) State any two assumptions under CAPM.
- e) What is an optimal portfolio?
- f) Mention any two needs for Portfolio Revision.
- g) State the measures for assessing risk on securities.
- h) What do you mean by technical analysis?
- i) What is a Risk Premium?
- j) Define security market line.

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CREDIT BASED SIXTH SEMESTER B.B.M. DEGREE EXAMINATION

APRIL 2014

BUSINESS MANAGEMENT
FINANCIAL MANAGEMENT – III
Corporate Financial Accounting

Time: 3 Hrs

Max. Marks: 120

SECTION – A

Answer any **THREE** questions

3x20=60

1. What are the objectives of Accounting Standards? Explain any four Indian Accounting Standards.
2. What are the steps involved in a venture capital investment process? Explain them briefly.
3. Anand Ltd. is considering the acquisition of large equipment for `12 lakh. Equipment is expected to have useful life of 8 years. Equipment is expected to have useful life of 8 years. Equipment can be financed either with 8 years term loan at 14% interest payable in equal annual installment of `2,58,676 or equivalent amount of lease rent of `2,58,676. In both the cases payments are due at the end of the year. The equipment is subject to straight line method of depreciation. Assume no salvage value. Tax rate 50% which financial alternative should be selected.

Year	P.V. factor at 7%
0	1.000
1	0.935
2	0.873
3	0.816
4	0.763
5	0.713
6	0.666
7	0.623
8	0.582

4. a) From the data given below calculate the gearing adjustment required under current cost accounting method:

Current cost	Opening (₹)	Closing (₹)
Convertible debentures	1,00,000	1,20,000
Bank overdraft	60,000	80,000
Cash	10,000	20,000
Paid up share capital	1,50,000	2,00,000
Reserves	30,000	50,000

Cost of sales adjustment	₹20,000
Monetary working capital adjustment	₹15,000
Depreciation	₹5,000
	40,000

b) The information given below relates to monetary account of Ram and Company. Compute the general price level of gain or loss:

	As on 1.1.2013	As on 31.12.2013
Monetary assets	80,000	1,00,000
Monetary liabilities	1,00,000	1,00,000
Retail price index	200	300
Average index for the year	240	

SECTION – B

Answer any FIVE questions

5x10=50

5. Explain the concept of human resource accounting state its importance.
6. Explain any five international accounting standards.
7. Discuss the advantages of leasing. What are its limitations?
8. State the role of international financial manager in an emerging economy.
9. Give a brief account of the financial instruments through which venture capital investment is made.
10. State the limitations of historical accounting in a period of inflation.

SECTION – C

11. Answer all the questions

10x1=10

- a) What do you mean by current cost accounting method?
- b) What do you mean by human resource accounting?
- c) State any two accounting concepts.
- d) What do you mean by monetary working capital adjustment?
- e) What do you mean by opportunity cost approach?
- f) Who is a venture capitalist?
- g) What do you mean by venture capital portfolio?
- h) What do you mean by operating lease?
- i) State two differences between single investor lease and leveraged lease.
- j) What is forfeiting?

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CREDIT BASED SIXTH SEMESTER B.B.M. DEGREE EXAMINATION

APRIL 2015

BUSINESS MANAGEMENT

PAPER – IV FINANCIAL MANAGEMENT

Security Analysis & Portfolio Management

Time: 3 Hrs

Max. Marks: 120

SECTION – A

Answer any THREE questions

3x20=60

1. What are the different forms of market efficiency? State its implications.
2. What is Markowitz optimal portfolio? Critically examine Markowitz Model.
3. Mr. Xavier is constructing a optimum portfolio. The market return forecast says that it would be 13.5 percent for the next two years with the market variance of 10 percent. The riskless rate of return is 5%. The following securities are under review. Find out the optimal portfolio.

Company	σ	β	σ^2
Asha	3.72	0.99	9.35
Nisha	0.60	1.27	5.92
Usha	0.41	0.96	9.79
Harshana	-0.22	1.21	5.39
Nishana	0.45	0.75	4.52

4. The returns of Security of Wipro and security of Infosys for the past six years are given below:

Year	Security of Wipro returns (%)	Security of Infosys Return(%)
2008	9	10
2009	5	-6
2010	3	12
2011	12	9
2012	6	15

Calculate the risk and return of portfolio.

SECTION – B

Answer any FIVE questions

5x10=50

5. Write a note on Systematic Risk.
6. The Random walk Hypothesis resembles the fundamental school of thought but is contrary to the technical analysis. Describe.
7. What is CAPM? What are the basic assumptions of CAPM?
8. How can an investor earn riskless arbitrage? Can the arbitrage exist forever in the market?
9. Stock X and Y display the following returns over the past 3 years.

Year	X (Return)	Y (Return)
2010	14	12
2011	16	18
2012	20	15

- a) What is the expected return on portfolio made up of 40 percent of X and 60 percent of Y?
 - b) What is the standard deviation of each stock?
 - c) Determine the correlation coefficient of stock X and Y.
 - d) What is the portfolio risk of a portfolio made up of 40 percent X and 60 percent Y?
10. If the following assets are correctly priced on the security market line, what is the return of the market portfolio? What is the risk free rate of return?

$$R_1 = 12\% \quad \beta_1 = 0.8$$

$$R_2 = 16\% \quad \beta_2 = 1.1$$

SECTION – C

11. Answer the following questions

10x1=10

- a) List the portfolio revision strategies?
- b) What is Return?
- c) What is meant by leveraged portfolio?
- d) Differentiate between passive & active investment strategies.
- e) What is Business Risk?
- f) What are the elements of return?
- g) State any two Stock Markets?
- h) What is a Risk free asset?
- i) Who is a risk averse investor?
- j) Mr. Rakesh provides you the following information. Compute the expected return by using CAPM.
 $R_m = 16\%$, $R_f = 9\%$, $B = 0.8$

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CREDIT BASED SIXTH SEMESTER B.B.M. DEGREE EXAMINATION

APRIL 2015

BUSINESS MANAGEMENT
FINANCIAL MANAGEMENT – III

Corporate Financial Accounting

Time: 3 Hrs

Max. Marks: 120

SECTION – A

Answer any THREE questions

3x20=60

1. Explain the various economic valuation methods of evaluating human assets. What are the objections against the value approaches?
2. The Balance sheet of Aman Limited as on 1st January 2014 and the Income statement for the year ending 31st December 2014 are set out below:

Balance sheet as on 1st January 2014

Share capital	10,000	New machine	15,000
10% Debentures	6,000	Stock	2,400
Creditors	3,600	Debtors	1,200
		Cash	1,000
	19,600		19,600

Income Statement

For the year ending 31st December 2014

Sales		10,000
Cost of goods sold:		
Opening Stock (FIFO)	2,400	
Purchases (Net)	4,600	
Cost of goods available for sale	7,000	
Less: Closing stock (FIFO)	2,000	5,000
Gross Profit on Sales		5,000
Operating Expenses	800	
Depreciation	1,500	
Interest on debentures paid on 31.12.2014	600	2,900
Retained Earnings		2,100

Debtors and Creditors balance remained constant throughout the year.

General price indices were as given below:

On 1 st January 2014	200
Average for the year	240
On 31 st December 2014	300

You are required to prepare the final accounts after adjusting for price level changes under CPP method.

3. Amratha limited is contemplating having an access to a machine for a period of 5 years. Discussions with various financial institutions have shown that the company can have the use of machine for the stipulated period through leasing arrangement, or the requisite amount can be borrowed at 14% to buy the machine. The firm is in the 50 percent tax bracket. In case of leasing, the firm would be required to pay an annual end-of-year rent of `1,20,000 for 5 years. All maintenance, insurance and other costs are to be borne by the lessee.

In the case of purchase of the machine (Which costs ` 3,43,300), the firm would have a 14%, 5 year loan, to be paid in 5 equal installments, each installment becoming due at the end of each year. The machine would be depreciated on a straight line basis for tax purposes, with no salvage value.

Advise the company regarding the option it should go for assuming lease rentals are paid at the end of the year.

4. What is Venture Capital Financing? Explain the stages involved in Venture Capital Financing.

SECTION – B

Answer any FIVE questions

5x10=50

5. The following were the balances of debtors and creditors of Aruna Limited at the beginning and close of the accounting year 2014.

	Opening `	Closing `
Trade Debtors	90,000	1,00,000
Trade Creditors	50,000	40,000

The average age of these items is two months. The index numbers applicable are.

Mid Month	2013	November	240
Mid Month	2013	December	250
Mid Month	2014	November	280
Mid Month	2014	December	290

You are required to calculate the MWCA.

6. State clearly the limitations of historical accounting.
7. Define Human Resource Accounting and state its objectives. What are the objections generally leveled against Human Resource Accounting.
8. Explain the Venture Capital Investment Process.
9. Briefly enumerate the guidelines issued by the Institute of Chartered Accountants of India on “Disclosure of Accounting Policies.”
10. Write a note on IAS-1 “Presentation of Financial statements & IAS –II ‘Inventories’.

SECTION – C

11. Answer all the questions

10x1=10

- a) State any two objectives of International Accounting Standards Committee.
- b) Give the meaning of Forfeiting.
- c) List any two objections against inflation accounting.
- d) Distinguish between single investor lease and a leveraged lease.
- e) From the following data, calculate cost of Sales Adjustments.

	HCA (₹)	Price Index
Stock as on 1.1.2014	10,000	180
Purchases during 2014	30,000	198
Stock as on 31.12.2014	12,500	220

- f) State any two functions of Accounting Standards Board.
- g) List any two differences between acquisition cost and replacement cost.
- h) State any two limitations of leasing.
- i) Differentiate between 'Accounting Concept' and 'Accounting Convention'
- j) A company purchased machinery on 1.1.2013 for a sum of ₹60,000 the retail price index on that date stood at 150. You are required to restate the value of machinery according CPP method on 31.12.2013, when the price index stood at 200.

CREDIT BASED SIXTH SEMESTER B.B.M. DEGREE EXAMINATION APRIL 2016
BUSINESS MANAGEMENT
FINANCIAL MANAGEMENT – IV
Security Analysis and Portfolio Management

Time: 3 Hrs.

Max. Marks: 120

SECTION – A

Answer any **THREE** questions:

3×20=60

1. "Indian Stock Markets are efficient". Discuss in the context of Efficient Market Hypothesis.
2. What is a Risk? Explain the various types of risk with suitable examples.
3. A portfolio manager has supplied you with the following information about several stocks. He has to build a optimum portfolio for his client without short sales.

Security	Expected return	β	σ_{μ}^2
A	22	1	35
B	20	2.5	30
C	14	1.5	25
D	18	1.0	80
E	16	0.8	20
F	12	1.2	10
G	19	1.6	25
H	17	2.0	30

The market index variance is 12 percent and the risk rate of return is 7 percent.

4. a) Following information is available in respect of two securities, Thin & Fat.

	Thin	Fat
Expected return	15%	20%
Standard deviation	10%	15%
Weight	50%	50%

Covariance 100

Find out the risk and return of the portfolio. Also find out the correlation between the return of Thin and Fat. (15 marks)

- b) The risk free rate is 4% and the market risk premium is 8.6% and β of the security is 1.3. What is the expected return of the security under CAPM? What would be the expected return if the β were to double? (5 marks)

SECTION – B

Answer any **FIVE** questions:

5×10=50

5. What is meant by security analysis? List out its objectives.
6. Explain Markowitz Efficient Frontier.
7. Bring out the difference between technical and fundamental analysis.
8. Write a note on factor models.

9. With the details given below evaluate the performance of different funds using Sharpe, Traynor and Jensen performance evaluation techniques.

Funds	Return	Standard deviation	Beta
A	2	20	0.98
B	12	18	0.97
C	8	22	1.17
D	9	24	1.22

Risk free rate of return is 4%

10. The following information available in respect of the return from security X under different economic conditions.

Economic conditions	Return	Probability
Good	20%	0.1
Average	16%	0.4
Bad	10%	0.3
Poor	3%	0.2

Find out the expected return of the security and the risk associated with that.

SECTION – C

11. Answer all the following:

10×1=10

- Give the meaning of security.
- What is a Market Anomaly?
- Give the meaning of Beta.
- What is an equilibrium?
- What is Arbitrage Pricing Theory?
- What is return?
- What is low PE effect?
- Define a mutual fund.
- State any two stock markets.
- Who is a risk averse investor?

CREDIT BASED SIXTH SEMESTER B.B.M. DEGREE EXAMINATION APRIL 2016
BUSINESS MANAGEMENT
FINANCIAL MANAGEMENT – III
Corporate Financial Accounting

Time: 3 Hrs.

Max. Marks: 120

SECTION – A

Answer any **THREE** questions:

3×20=60

1. Omega Ltd., is thinking of installing a Latha Machine Decide whether the Latha Machine is to be purchased outright (through 15% borrowing) or to be acquired on lease rental basis. The rate of income-tax may be taken at 40%. The other data available are as under:

Purchase price ₹20,00,000

Annual maintenance (to be paid in advance) ₹50,000 per year

Expected economic useful life 6 years

Depreciation (for tax purposes) straight line method

Salvage value ₹2,00,000

Leasing of Latha Machine:

Lease charges to be paid in advance ₹4,50,000

Maintenance expenses to be borne by lessor

Payment of loan – 6 year end instalment of ₹5,28,474.

2. Calculate the amount of depreciation under “Current Cost Account” (CCA) method for each of the four years as well as the backlog depreciation for a certain item of the asset from the following details:

Cost of Machine ₹40,000

Estimated life 4 years

Residual value Nil

Inflation factor 10%p.a.

Assume straight line method of depreciation

3. Explain the Investment process throwing light on different stages of finance provided by a venture capitalist.
4. What are Accounting Concepts? Describe briefly the various types of Accounting concepts.

SECTION – B

Answer any **FIVE** questions:

5×10=50

5. Vandan Ltd., held shares in Vijetha Ltd., which it bought for ₹10,000 in 2001 when index of the general level of prices stood at 110. At the end of 2004 the market price of the shares was ₹8,000 and the index 132. At the end of 2005 the market price of the shares was ₹9,000 and the index was 145.2.
- Calculate CPP value of the shares at the end of 2004 and 2005.
 - Under CPP accounting what gain or loss would be shown in respect of the shares?
 - What, in fact, was the gain or loss in purchasing power in respect of the shares during 2005?
6. Write a note on Indian Accounting standard 1: Disclosure of Accounting Policies.

7. Compare and contrast Historical Cost Method and opportunity cost Method of Human Resources Valuation.
8. Describe the features of Venture Capital Financing.
9. State the objectives and importance of International Accounting standards.
10. Explain Lev and Schwartz and Flamholtz models of Human Resource Valuation.

SECTION – C

11. **Answer all the following:**

10×1=10

- a) What is meant by convention of conservatism?
- b) Show Accounting Equation on the basis of the following:
 - a) Ramanujam started business with ₹25,000.
 - b) Purchased goods on credit from Shyam: ₹10,000.
 - c) Sold goods to Somon costing ₹1,500 for ₹1,800 on credit.
- c) State any two limitations of Historical Accounting.
- d) Give the meaning of 'cost of sales adjustment' (COSA).
- e) Define 'Human Resource Accounting'.
- f) What is meant by 'Unpurchased Goodwill' method?
- g) What is operating lease?
- h) State any two limitations of leasing.
- i) Expand IASC.
- j) What is Forfeiting?
